

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-01 L-03 PRS-01
PA-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15 STR-04
OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00
XMB-02 OPIC-03 LAB-04 SIL-01 /104 W
-----041158Z 020627 /13

R 040720Z MAR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6718

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR ZINMAN

E. O. 11652: ADS, DECLAS 3/4/78

TAGS: EAID, EFIN

SUBJECT: REVIEW OF ADB FINANCIAL POLICIES

REF: (A) TREASURY 77-27, (B) TREASURY 77-20, (C) MANILA 2692,
(\$) MANILA 2575, (E) MANILA 1596

SUMMARY: ON MARCH 3, ADB BOARD OF DIRECTORS APPROVED
MODIFICATIONS IN BANK FINANCIAL POLICIES AS DETAILED IN ADB
WORKING PAPER 1-77 AND REFTEL (E), INCLUDING FIXING
OF LENDING RATE AT 8.7 PERCENT. ON ISSUE OF DIFFERENTIAL
TERMS FOR HIGHER INCOME COUNTRIES (HONG KONG AND SINGAPORE),
BOARD AGREED TO ELIMINATE BANK'S PREMIUM LENDING RATE AND
MOVE TO ALTERNATIVE BASIS OF MAXIMUM 15 YEAR AMORTIZATION
AND THREE YEAR GRACE PERIOD. END SUMMARY.

1. AT MARCH 3 MEETING, ADB BOARD OF
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DIRECTORS CONSIDERED ADB DOC. R16-77 (POUCHED MARCH 2) ON
REVIEW OF FINANCIAL POLICIES OF BANK, WHICH INCORPORATED
MAIN CONCLUSIONS THAT HAD EMERGED FROM BOARD DISCUSSIONS
ON FEBRUARY 17-18 (REPORTED REFTEL (D)) AND SPECIFIC PRO-
POSALS FOR DECISION OF BAORD. ADB PRESIDENT SUGGESTED
AND BOARD AGREED, THAT ALL PROPOSALS, INCLUDING PROPOSED
8.7 PERCENT LENDING RATE, BE CONSIDERED TOGETHER, BUT

LEAVING QUESTION OF DIFFERENTIAL TERMS FOR HIGHER-INCOME COUNTRIES (HONG KONG AND SINGAPORE), WHICH WOULD BE CONSIDERED SEPARATELY THEREAFTER.

2. U.S. DIRECTOR MADE PREPARED STATEMENT (COPY POUCHED TREASURY) COVERING POINTS IN REFTEL (B). IN GENERAL DISCUSSION, TWO SIGNIFICANT POINTS WERE MADE: (A) IF PROPOSED LENDING RATE OF 8.7 PERCENT WERE TO BE REVIEWED PRIOR TO NEXT ANNUAL REVIEW, THEN COMMITMENT CHARGE SHOULD ALSO BE REVIEWED; AND (B) WHILE THERE WAS AGREEMENT THAT BORROWINGS MAY BE MADE UP TO 25 PERCENT OF THREE-YEAR REQUIREMENTS (VIZ., UP TO \$260 MILLION, INCLUDING TWO-YEAR BONDS, IN CY 1977), IT WAS UNDERSTOOD THAT PRESIDENT COULD COME TO BOARD TO SEEK PERMISSION TO BREACH CEILING IF, FOR EXAMPLE, VERY FAVORABLE BORROWING SITUATION MIGHT PREVAIL OR IF DISBURSEMENTS SHOULD EXCEED PROJECTIONS BY SIGNIFICANT AMOUNT. WITH THESE QUALIFICATIONS, PROPOSALS WERE APPROVED.

3. ON SUBJECT OF DIFFERENTIAL TERMS FOR HIGHER INCOME COUNTRIES, PRESIDENT CALLED INITIALLY ON JAPANESE DIRECTOR. LATTER SAID THERE IS STILL JUSTIFICATION FOR LENDING TO THESE COUNTRIES, BUT IT SHOULD BE MODEST, SHOULD TAPER OFF GRADUALLY AND COUNTRIES SHOULD GRADUATE IN LONG RUN. (FYI: THIS IS FIRST TIME JAPAN HAS STATED IN BOARD MEETING THAT ASSISTANCE TO THESE TWO COUNTRIES SHOULD TAPER OFF. END FYI) HE SAID THAT HE FAVORED SHIFTING TO MATURITY DIFFERENTIAL, BUT WITH CEILING ON AMORTIZATION PERIOD TO LIMIT THE HAND OF BANK MANAGEMENT LIMITED OFFICIAL USE

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TO SOME EXTENT. HE, THEREFORE, RECOMMENDED MAXIMUM OF 15 YEAR AMORTIZATION WITH MAXIMUM OF 3 YEAR GRACE. JAPANESE DIRECTOR WAS QUICKLY SUPPORTED BY MOST DIRECTORS REPRESENTING BORROWING COUNTRIES, WHOSE POSITIONS HAD SOFTENED SINCE PREVIOUS MEETING ON THIS SUBJECT, PLUS AUSTRALIA, INDIA AND UNITED KINGDOM.

4. CANADIAN DIRECTOR SAID HIS GROUP OF COUNTRIES WOULD PREFER STATUS QUO OF 60 BASIS POINTS DIFFERENTIAL INTEREST RATE. HE SAID DIFFERENTIAL TREATMENT HAD SYMBOLIC IMPORTANCE AND SHOULD NOT BE FURTHER DILUTED. HOWEVER, HE COULD AGREE TO DIFFERENTIATION EXPRESSED IN LOWER AMORTIZATION AND GRACE PERIOD AS ALTERNATIVE BUT NO BETTER THAN 10 YEAR MATURITY WITH 3 YEAR GRACE. WITH REGARD TO PROPOSAL FOR MOVING TO IBRD TERMS OF 15 YEAR MATURITY WITH 3 YEAR GRACE, PERHAPS BANK SHOULD CONSIDER IBRD'S COMPLETE THREE-TIER SYSTEM AT SOME FUTURE TIME AND NOT IGNORE OTHER TWO TIERS. IN CONCLUSION, HE SAID

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HIS GROUP COULD ACCEPT A 9.3 PERCENT PREMIUM RATE, OR
10 YEAR MATURITY WITH 3 YEAR GRACE. HOWEVER, IF BANK
MOVES TO 15 YEAR MATURITY WITH 3 YEAR GRACE, THEN THREE-
TIER SYSTEM SHOULD BE ADOPTED. GERMAN ALTERNATE SAID HIS
COUNTRY COULD ACCEPT 10 YEAR MATURITY WITH 3 YEAR GRACE.

5. U.S. DIRECTOR SAID BOTH HONG KONG AND SINGAPORE SHOULD
BE ALLOWED TO GRADUATE, AS NEITHER BORROWER IS NEAR BORDER-
LINE ON BASIS OF PER CAPITA GNP. HE SAID HE COULD FREELY
SUPPORT 9.3 PERCENT PREMIUM RATE BUT COULD ALSO SUPPORT
APPLICATION OF SHORTENED MATURITY STRUCTURE IF THERE WAS
CONSENSUS. HE SAID HE ALSO SAW MERIT IN MOVING TO THREE-
TIER FORMULA IF BAAK FAVORS IBRD TERMS FOR HIGHER INCOME
COUNTRIES. HE ASKED WHETHER JAPANESE DIRECTOR'S PRO-
POSAL ALSO INCLUDED IBRD AMORTIZATION METHOD FOR THESE
COUNTRIES, OTHERWISE 14 YEAR FINAL MATURITY WITH 3 YEAR
GRACE WOULD BE EQUIVALENT TO IBRD TERMS. HE ALSO ASKED
WHETHER JAPANESE PROPOSAL WOULD LIMIT SIZE OF LOANS.

6. JAPANESE DIRECTOR SAID HE HAD NOT REFERRED TO METHOD
OF REPAYMENT. HE SAID PROPOSED BANK TERMS WOULD IN
ANY CASE BE HARDER BECAUSE OF BANK'S HIGHER LENDING RATE.
HE SAID IT WOULD SEEM RIDICULOUS TO SET MATURITY AT 14
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YEARS, WHILE ON ALTERNATIVE OF TWO YEAR GRACE WOULD BE TOO STRICT. ON SIZE OF LOANS, HE SAID THAT, ON AVERAGE, SIZE OF LOANS TO SINGAPORE, FOR EXAMPLE, HAS BEEN REDUCED, WHILE AT SAME TIME INFLATION HAS CONTINUED. ALSO BY ACCEPTING NEW MATURITY STRUCTURE, NET FLOW TO THESE COUNTRIES WOULD BE REDUCED.

7. AT THIS POINT, IT WAS OBVIOUS THAT, IF VOTING WAS FORCED, JAPANESE PROPOSAL WOULD BE ACCEPTED. U.S. DIRECTOR THEN SAID THAT HE WOULD RELUCTANTLY GO ALONG WITH MAJORITY. CANADIAN DIRECTOR SAID HIS GROUP COULD NOT SUPPORT PROPOSAL AND ASKED THAT HIS POSITION BE RECORDED IN MINUTES OF MEETING.

8. FOLLOWING IS TEXT OF BOARD DECISION ON THIS SUBJECT.
QUOTE: FOR THE HIGHER-INCOME DEVELOPING MEMBER COUNTRIES WHOSE PER CAPITA GNP EXCEEDED US\$850 AT THE END OF 1972 (WHICH CORRESPONDS TO US\$1,075 AT THE END OF 1975) THE MATURITY PERIOD OF LOANS APPROVED ON OR AFTER 1 JANUARY 1977 WOULD NOT EXCEED 15 YEARS INCLUSIVE OF A GRACE PERIOD OF 3 YEARS, WITH ANNUITY BASIS OF AMORTIZATION; PROVIDED THAT, WHERE ANY PROJECT JUSTIFIES LESSER MATURITY AND GRACE PERIODS, SUCH LESSER TERMS WILL APPLY. THE AMOUNT OF LENDING WOULD BE KEPT AT MODEST LEVELS AND WOULD PREFERABLY BE FOR PROJECTS WITH A SIGNIFICANT SOCIAL CONTENT. UNQUOTE.
SULLIVAN

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